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TAGS: ECON ETRD KIPR EAID EFIN TRGY PREL FR
SUBJECT: MFA ROUND-UP ON BILATERAL ECONOMIC ISSUES

Classified By: Econ Minister-Counselor Thomas White for reasons 1.5 (b) and (d).

¶1. (C) SUMMARY: Senior economic policy officials at the MFA have noted their relief at the three-month "cease fire" over the Airbus/Boeing case but explain that contrary to the U.S. views, they believe the soon to be developed A350 would be covered by the 1992 aircraft agreement. They explained that France is not embarking on a new policy of promoting national champions and that President Chirac will continue to press the global tax idea at Davos and in other fora. Our contacts report no progress in talks with Japan on ITER, but note that the EU will not wait interminably before beginning construction at the Cardarache site. End Summary.

¶2. (C) On 25 January Econ Minister-Counselor and Econ Chief called on MFA Economic Director (U/S equivalent) Alain Le Roy and his deputy, Jean-Christophe Chouvet, to review current bilateral economic policy issues. Econ M/C started by asking Leroy about his reaction to the recent U.S.-EU agreement to take no further steps toward litigation in the large commercial aircraft (LCA) area. He underlined for Le Roy that this was an issue that remained extremely important for the USG and added that the key issue will be how the launch of the Airbus A350 is handled. Le Roy said that he understood that the 1992 LCA agreement covered the A350 and that therefore previous practices (loans, launch aid) would be allowed. Econ M/C noted that U.S. lawyers had a different interpretation. Le Roy asked if Boeing was prepared to renounce "subsidies" that it received from the Japanese government. Econ M/C said that would be an issue to be discussed between EU and Japanese officials. He closed by noting that both Boeing and Airbus were mature and successful firms that should be allowed to compete in the future without subsidies. The WTO subsidies code was a good place to start in coming to definitions of what constituted subsidies.

¶3. (SBU) Referring to the recent Airbus A380 rollout, Econ M/C noted that it was interesting that former Airbus EADS CEO Philippe Camus was not present at the ceremony. Le Roy only noted that, "Well, his time has passed."

¶4. (C) Econ M/C then recalled for Le Roy President Chirac's New Year's speech in which Chirac promised to create a new agency to fund research and development efforts to "create the new Airbus and Ariane of the 21st century." Econ M/C noted that the USG hoped that this did not signal a new strategy of promoting national champions. Any restrictions on which countries could invest or participate in the projects would be an unfortunate development, particularly if it affected reasonable merger and acquisition activities. He cited the 2003 Aventis case (in which PM Raffarin determined that pharmaceutical firm Sanofi was of "strategic" importance to France and could thus not be bought by Swiss giant Aventis) as a troubling example of what could cause concern in foreign capitals. Le Roy replied that Chirac's intent was "much more voluntary" and that there was no intention to exclude anybody. He said he really did not understand how Chirac's proposal could be construed as potentially advocating a national champions strategy. He added, though, that clearly, "Europe" needed to maintain "its capacity in certain fields."

¶5. (C) Econ M/C asked whether there had been any recent progress with the Japanese on ITER (the International Thermonuclear Experimental Reactor project). Not particularly, Le Roy replied. He said that the GOF believed that the U.S. was the key player in the ITER discussions and restated the GOF position that "most of the scientific community" supports the French site of Cardarache for the facility. He asked if the U.S. would support the Cardarache location if the EU and Japan came to an agreement. Econ M/C responded that the USG was looking for a consensus and that once there was one, the U.S. would look carefully at the proposal. Le Roy added that there was "some pressure" to get the project in Cardarache started. While the EU was not ready to begin its own project on the site at this time, they were not prepared to wait forever. While the EU would prefer to proceed with all six parties on board, he said, they were prepared to move forward without some of the others if necessary.

¶6. (C) On FSC, Econ M/C reminded Le Roy that both the Administration and the U.S. Congress had worked hard to come up with a legislative package that would address the WTO case's concerns and that difficult political decisions were made. He explained that the EU's decision to re-impose sanctions retroactively and automatically should the WTO decide the U.S. measures were insufficient was not well received in Washington. With Congressional consideration of fast-track authority scheduled this summer, it is unwise to ignore Congressional trade views. Le Roy took those points on board.

¶7. (C) Turning to Davos, Le Roy noted that President Chirac would be appearing in Davos and would speak on the GOF "global tax" proposal as a way to fund development initiatives. He said that Chirac would propose that a tax be levied on specific international transactions such as international airline ticket sales. Le Roy said he hoped that a new suggestion that nations be allowed to "opt out" of the proposed tax plan would make the proposal more attractive to the U.S. Econ M/C informed Le Roy that the idea was not a popular one in the USG because it raised some fundamental questions about how such a tax could be administered and what its impact on economic growth would be.

¶8. (C) Econ Chief also briefed Le Roy on a proposed OECD study on anti-piracy and anti-counterfeiting. He explained that we had hoped to work closely with the GOF on anti-piracy measures and that a good place to start would be a study on the subject. Econ Chief continued by noting that the USG was prepared to pay for a significant amount of the study under certain conditions. Unfortunately, he added, the French delegation was insisting that the study cover digital piracy in its first stage and would not agree to support any study without this provision. Econ Chief added that the USG may be willing to consider a study in that area at a future date, but could not support it now. With a plurality of OECD members supporting a study without the digital piracy component, Econ Chief opined that it would be a shame to miss this opportunity to begin to tackle a problem of great importance to both the U.S. and France. He said he hoped that France would reconsider its all-or-nothing approach. Le Roy said he would look into the issue.
Leach